

POWER PROJECT FINANCING

508 San Anselmo Avenue, Suite 1A

San Anselmo, California 94960

(415) 721-7012 Direct Line

(415) 721-7356 Facsimile

Internet:ppf@slip.net

<http://www.slip.net/~ppf>

Abstract

This paper addresses issues in structuring the key contracts to allocate risk in a power plant project financing. No "magic formula" exists. Rather, a thorough, comprehensive, and detailed approach is needed on a case-by-case basis.

About the Author

Daniel A. Potash is Managing Partner of Power Project Financing, a consulting firm based in San Anselmo, California. Mr. Potash advises private sector developers and governments on financing and development of electric power plants. He has recently worked on projects in Brazil, Armenia, China, Mexico, and the Philippines. Government clients include the California Energy Commission, U.S. Trade and Development Agency, and U.S. Agency for International Development. Mr. Potash holds a B.S. in Industrial Engineering and an MBA from Columbia University.

Presentation

Structuring contracts to distribute risk involves more perspiration than inspiration. The following checklist usually elicits groans from developers who would like an easier process to create a financeable project.

The good news is that successful financing can be guaranteed if the checklist is followed. The bad news is that the checklist is so detailed and comprehensive that it is rather imposing. What happens in real life is that energy project developers take on a little bit of an extended risk profile in one area, or they may move ahead on a project with a little more commitment and a little sooner than may be fully justified. In other words, developers are looking for 80% to 90% compliance with the checklist.

The checklist has 16 main points, comprising major areas of total feasibility for an independent power project. Note that some issues are dependent on the project: a hydroelectric project will have no fuel supply agreement, for example. However, there are many areas in common, and the risk allocation process always has to make sense.

1. Developer Profile. The issue here is who is the developer (also called sponsor, backer, proposer) of the project and what are their qualifications? Venture capitalists say that